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IN THE

Supreme Court of the United States

OCTOBER TERM, 1971

No.

CUSTOM RECORDING COMPANY, INC., *et al.*,

Petitioners,

v.

COLUMBIA BROADCASTING SYSTEM, INC.,

Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE SUPREME COURT OF SOUTH CAROLINA

Custom Recording Company, Inc., Charles A. Schafer and Jenny Hightower, herein referred to collectively as Petitioners, hereby petition this Court for a Writ of Certiorari to review the decision of the Supreme Court of South Carolina filed on May 29, 1972.

CITATION TO OPINIONS BELOW

The opinion of the Court of Common Pleas, County of Aiken, State of South Carolina, is reported only at 171 USPQ 502 and is printed in Appendix A hereto, infra, p. 1a. The opinion of the Supreme Court of South Carolina is reported at 189 SE 2d 305 and 174 USPQ 309, and is printed in Appendix B hereto, infra., p. 1b.

JURISDICTION

The judgment of the Supreme Court of South Carolina was entered on May 29, 1972, and no rehearing was sought. The jurisdiction of this Court is invoked under 28 USC §1257(3).

QUESTION PRESENTED

Whether a state's unfair competition law can, consistently with Article I, §8, Clause 8 of the United States Constitution and the implementing federal copyright laws, prohibit the copying of sound recordings which have been sold on the open market and which are not protected by either a federal patent or copyright.

CONSTITUTIONAL PROVISIONS INVOLVED

This case involves the following constitutional provisions:

Article I, §8, Clause 8 of the Constitution of the United States, which provides:

> "Congress shall have power . . . to promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries."

STATEMENT OF THE CASE

Respondent is a corporation engaged in the manufacture and sale of sound recordings on which are embodied musical performances rendered by artists under contract with respondent. Respondent advertises and promotes the sale of its sound recordings and sells such sound recordings on the open market.

Petitioners purchase sound recordings on the open market, some of which were manufactured and sold by respondent, and petitioners have transferred or copied some of the musical performances embodied on such sound recordings to magnetic tape cartridges which petitioners sell to the general public under their own distinctive trade dress.

In May of 1971, this action was commenced by the filing of respondent's complaint (R. 4) alleging that petitioners, by copying sound recordings (which are not copyrighted or patented) originally manufactured by respondents but purchased on the open market by petitioners, were competing unfairly with respondent. Respondent's complaint requested temporary and permanent injunctive relief, and an accounting (R. 12-14). Petitioners duly filed an answer which included petitioners' acknowledgement that they did purchase sound recordings on the open market, and did copy or transfer some of the musical performances embodied on these sound recordings onto magnetic tapes that petitioners then sold to the general public under their own distinctive trade dress (R. 19-21). However, in response to respondent's allegation that such copying or transferring constituted unfair competition under state law, petitioner asserted as its second affirmative defense that the sound recordings sold by respondent on the open market were in the public domain and, therefore, respondent's assertion, under state law, of the exclusive right to prevent others from copying such public domain sound recordings "constitutes an unwarranted and improper interference with the federal monopoly scheme provided in Article 1, Section 8, Clause 8, of the United States Constitution and the implementing federal legislation." (R. 21).

Following a hearing on respondent's motion for a temporary injunction, the Court of Common Pleas issued an Order (R. 45), denying such motion, and discussed at great length petitioners' above-described second alternative defense (R. 45-59). Respondent appealed to the Supreme Court of South Carolina, setting out as an exception that the lower Court had "erred in considering defenses based upon State and Federal statutes providing monopoly protection for patents, trademarks, copyrights and trade names." (R. 67)

The Supreme Court of South Carolina reversed the trial court and granted the injunctive relief requested by respondent. The Court, after discussing in detail petitioners' constitutional argument to the effect that the copying of uncopyrighted sound recordings could not be prohibited by state law, nevertheless concluded as a matter of law that such copying by petitioners "violated [respondent's] legal rights." A. 14b.

REASONS FOR GRANTING THE WRIT

Petitioners request this Court to grant a Writ of Certiorari for the following reasons.

I.

THE DECISION OF LOWER COURT IS 'FINAL' WHEN TESTED AGAINST THE POLICY OF 28 U.S.C. 1257 AND THE GUIDELINES ESTABLISHED BY THIS COURT.

The decision of the Supreme Court of South Carolina grants a temporary injunction and remands the case to the lower court "for determination of all other pending issues" (A. 14b), and this language at least on its face, could be interpreted as raising the issue of whether such

decision is "final" as required by 28 U.S.C. 1257(3).[1] But this Court has indicated in *Pope v. Atlantic Coast Line R. Co.* 345 U.S. 379 (1953), perhaps the leading case on the question of finality,[2] that it will look beyond the face of the judgment itself in determining whether the required finality is present. The Court stated:

> "Yet, we are not bound to determine the presence or absence of finality from a mere examination of the 'face of the judgment.' We have not interpreted §1257 so as to preclude review of federal questions which are in fact ripe for adjudication when tested against the policy of §1257.
>
> The finality problem arises in the case because the judgment of the Georgia Supreme Court did not, on its face, end the litigation. Both parties agree that Georgia procedure would permit petitioner to return to the Supreme Court of Ben Hill County and interpose some other defense to respondent's suit for an injunction. But petitioner has no other defense to interpose. He has been both explicit and free with his concession that his case rests upon his federal claim and nothing more. If the court below decided that claim correctly, then nothing remains to be done but the mechanical entry of judgment by

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[1] 28 U.S.C. 1257(3) provides:

"Final judgments or decrees rendered by the highest court of a state in which a decision could be had, may be reviewed by the Supreme Court as follows:

. . .

(3) By writ of certiorari . . . when any title, right, privilege or immunity is specially set up or claimed under the Constitution . . . ."

[2] In its grant of certiorari, this Court directed counsel to brief and argue the question of finality. 345 U.S. at 381.

> the trial court. Thus, as the case comes to us, the federal question is the controlling question; 'there is nothing more to be decided.' " (345 U.S. at 382).

It seems clear from a reading of the lower court's opinion here that its decision is final on the federal question raised by petitioner which is, clearly, the "controlling question." The theory of respondent's cause of action, as set out in its complaint (R. 4) is simply that the act of copying respondent's uncopyrighted sound recordings, in and of itself, constitutes unfair competition. Petitioners have answered by admitting the copying of respondent's sound recordings and contending that the prohibition of such copying, by state law, would interfere with the federal monopoly scheme provided in Article I, §8, Clause 8, of the United States Constitution and implementing federal legislation (R. 20-21). [3]

Substantially the entire opinion of the South Carolina Supreme Court is directed to the federal question thus raised by the pleadings, and after a full discussion of the federal question, the court concluded that the "legal rights" (A. 14b) of respondent had been violated and injunctive relief was granted. Indeed, the court expressly

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[3] Petitioners' answer does raise affirmative defenses based on alleged unclean hands of respondent (See, e.g., R. pp. 22-23), but it is believed clear that the controlling question, indeed the only question raised by respondent's complaint, is whether uncopyrighted sound recordings can be legally copied, and that certiorari should be granted here to avoid an "unnecessary waste of time and energy" as was done in *Mills v. Alabama*, 384 U.S. 214, 218 (1966), where Justices Douglas and Brennan noted in their concurring opinion that certiorari was proper "even had appellant been unwilling to concede that he has no defense–apart from the constitutional question–to the charges against him," 384 U.S. at 221.

noted that there was no factual dispute whatever,[4] and the dissenting judge correctly notes that "the proposed majority opinion, in effect, decides, *on the merits*, a most important question of completely novel impression in this jurisdiction." (A. 14b, emphasis added)

It is believed apparent, then, that since respondent's entire case rests solely upon the question of whether uncopyrighted sound recordings can be protected from copying under state law,[5] and since the lower court's decision has answered this question in the affirmative as a matter of law, there can be little doubt that such decision is final within the guidelines recently laid down by Chief Justice Berger in *Organization for a Better Austin v. Keefe*, 402 U.S. 415, 418 (1971) where he states:

> "The injunction is termed a 'temporary injunction' by the Illinois courts. We have therefore considered whether we may properly decide this case. 28 U.S.C. §1257. We see nothing in the record

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[4] The opinion of the South Carolina Supreme Court states that "the facts before the lower court are in large measure undisputed," and that "there can be little contest remaining as to the facts when the case is tried on its merits." A. 12b.

[5] In substantially every reported decision involving the question of whether sound recordings can be legally copied, the question has been decided on a motion for temporary injunction, and there have been no subsequently reported final decisions in these cases. This clearly suggests that once the copying issue is decided, such decision is final because it becomes the law of the case and the defendant has no valid reason to go through the motions of a fruitless trial on the merits. See, e.g. *Capitol Records, Inc. v. Greatest Records, Inc.*, 252 NYS 2d 553 (N.Y.S.C. 1964); *Capitol Records, Inc. v. Erickson*, 82 Cal. Rep. 798 (Cal. App. 1969); *Capitol Records, Inc. v. Spies*, 264 N.E.2d 874 (Ill. App. Ct. 1970); and *Liberty/UA v. Eastern Tape Corp.*, 180 S.E.2d 414 (N.C. Ct. App. 1971).

that would indicate that the Illinois courts applied a less vigorous standard in issuing and sustaining this injunction that they would with any permanent injunction in the case. Nor is there any indication that the injunction rests on a disputed question of fact that might be resolved differently from further hearing."

Accordingly, petitioners earnestly submit that the judgment below is a final judgment, and, even though on its face the judgment grants only temporary injunctive relief, petitioners respectfully request this Court to reach the important constitutional question presented and thereby avoid the "roundabout process" recently discussed in *Mills v. Alabama*, 384 U.S. 214, 217-18, which would "result in a completely unnecessary waste of time and energy in judicial systems already troubled by delays due to congested dockets." See also *Food Employees v. Logan Valley Plaza*, 391 U.S. 308, 309 (1968); *Local No. 438 v. Curry*, 371 U.S. 542 (1963); *Richfield Oil Corp. v. State Board of Equalization*, 329 U.S. 69, 73-74 (1946).

II.

THE QUESTION PRESENTED HERE IS OF VITAL IMPORTANCE TO AN ENTIRE INDUSTRY, AND SUCH IMPORTANCE HAS BEEN RECOGNIZED BT THIS COURT.

The vital significance of the question presented in the instant case has been recently recognized by this Court when it granted, on May 30, 1972, a Petition for Writ of Certiorari in *Goldstein v. California*, No. 71-1192 (October Term, 1971) where the question presented is substantially identical to the question presented in the present case.[6] Whereas *Goldstein* deals with the question

[6] The question presented in *Goldstein* is: "May the State of California, through its criminal laws, grant copyright protection for unlimited times to sound recordings in the Public Domain, in

of whether State criminal laws can constitutionally prohibit the copying of federally unprotected sound recordings, the instant case presents the question of whether a State's unfair competition law can prohibit such copying.

As this Court no doubt recognized in granting the Petition for Writ of Certiorari in *Goldstein*, an entire industry having annual sales in excess of $100,000,000[7] is threatened with annihilation by State law recognition of a perpetual and exclusive right in sound recording manufacturers to prohibit others from copying their sound recordings, notwithstanding the fact that these sound recordings are not copyrighted. Indeed, the recent trend in State court decisions involving this point has now established a body of precedents which other courts are extremely reluctant not to follow.[8] Moreover, the sound recording manufacturers are moving quickly to take advantage of the precedent, as indicated by a recently quoted statement of a national recording industry official indicating that civil suits, like the one at bar, have recently been brought in 40 states against approximately 500 defendants.[9]

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direct conflict with Article I, §8, Clause 8 of the United States Constitution and the implementing Federal Copyright laws and and policy." Petition for Writ of Certiorari, p. 2, *Goldstein v. California*, No. 71-1192.

[7]H.R. No. 92-487, 92 Cong., 1st Sess. at 2. See also *ITMA v. Gerstein*, ___ F. Supp. ___, 174 USPQ 198, 204 (S.D. Fla. 1972) where the court indicated that the plaintiff, an association of duplicators like petitioners here, was recognized as having activities that were "national in scope."

[8]After reviewing a number of such precedents, the court below found such "cases to be persuasive if not indeed mandatory." A. 14b.

[9]*Billboard Magazine*, July 22, 1972, issue, at p. 70.

Manifestly, the importance of the question presented in this case is demonstrated by the fact that the rerecording industry represented by petitioners here cannot survive unless this Court rectifies immediately the present situation in which state courts are uniformly granting, in effect, state law copyright protection to sound recordings which Congress, in the exercise of its exclusive constitutional prerogative, has deliberately left in the public domain.

III.

THE CREATION OF UNLIMITED STATE MONOPOLIES IS CONTRARY TO THE PUBLIC INTEREST AND TO THE HISTORICAL CONDEMNATION OF SUCH MONOPOLIES IN THIS COUNTRY.

Historically, monopolies in trade or business in this country are "generally denounced as odious, intolerable, and contrary to public policy and common right."[10] This Court, in *Standard Oil Co. v. U.S.*, 221 U.S. 1, 52 (1910), after reviewing the history of monopolies in this country and in England, concluded that:

> "The frequent granting of monopolies and the struggle which led to a denial of the power to create them, that is to say, to the establishment that they were incompatible with the English Constitution, is known to all and need not be reviewed. The evils which led to the public outcry against monopolies and to the final denial of the power to make them may be thus summarily stated: (1) The power which the monopoly gave to the one who enjoyed it, to fix the price and thereby injure the public; (2) The power which it engendered of enabling a limitation on production; and (3) The danger of deterioration

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[10] 36 *Am. Jur., Monopolies, Combinations, and Restraints of Trade*, Sec. 3 (1941), and cases cited therein.

in quality of the monopolized article which it was deemed was the inevitable resultant of the monopolistic control over its production and sale."

Yet, the decision of the lower court here, by absolutely and perpetually prohibiting the copying of sound recordings originally produced by respondent, unquestionably establishes a common law, state imposed monopoly in such sound recordings, and it is vitally significant that such monopolies do not and cannot serve any public interest because the public derives no present or ultimate benefit from these monopolies.

It is true, of course, that the federal patent and copyright laws create special limited monopoly privileges which are recognized exceptions to the general rule against monopolies,[11] but these federal laws are authorized under the Constitution, "to promote the progress of science and useful arts,"[12] and any benefit flowing to the holders of these special monopolies are purely secondary to the general purpose of serving the public interest.[13] More specifically, Congress grants to the author or inventor an opportunity to secure material reward for his contribution for a limited time on the condition that the public will ultimately fall heir to this contribution upon the expiration of such limited time.[14]

Thus, despite the natural aversion to monopolies in a free society, the Constitution authorizes the federal

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[11] *Precision Instrument Mfg. Co. v. Automotive Maintenance Machinery Co.*, 324 U.S. 806 (1945)

[12] U.S. Constitution, Art. I, Sec. 8, Cl. 8.

[13] *Mazer v. Stern*, 347 U.S. 201, 209 (1954); *U.S. v. Paramount Pictures*, 344 U.S. 131, 158 (1948).

[14] *Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249 (1946)

Congress to grant limited monopolies for the purpose of stimulating creativity and ultimately adding the fruits of this creativity to the total stock of useful public knowledge. Moreover in deciding upon the distribution of power between the federal and state governments, the framers of the Constitution had no difficulty in determining with virtual unanimity that copyright monopolies should rightly be entrusted to the federal government,[15] and in *Federalist Paper No. 43*, James Madison noted that "the utility of this power will scarcely be questioned."

It is submitted that the decision of the lower court in the case at bar fails to recognize the basic concept in this country that unlimited common law monopolies in products are not permitted[16] because they are entirely contrary to the public interest, as has been historically demonstrated by the adverse effects of such monopolies upon a free society; and, as will be discussed in greater detail presently, the decision of the lower court creates an improper and unwarranted state intrusion into the beneficial and limited federal monopoly scheme created by Congress under its exclusive constitutional mandate.

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[15] 1 *Nimmer on Copyrights*, pp. 1-2 (1972).

[16] 1 *Dellar's Walker on Patents*' §6, p. 46 (2nd ed. 1964). "The right which an inventor obtains is a creature of statute whereas an inventor has no exclusive right to his invention at common law."

IV.
THE LOWER COURT'S DECISION IS PLAINLY AND DIRECTLY CONTRARY TO RECENT DECISIONS OF THIS COURT.

Petitioners earnestly submit that the recent decisions of this Court in the companion *Sears*[17] and *Compco*[18] cases are dispositive of the question presented here. In *Sears* and *Compco* the defendants, like petitioners here, were charged with unfair competition, under state law, because they had copied lighting fixtures which had been designed and manufactured by plaintiffs, but which were not covered by valid patent or copyright protection.[19] In reversing these lower court decisions, Mr. Justice Black, speaking for a unanimous Court, summarized the holdings in both cases by stating in *Compco*,

> "Today we have held in Sears Roebuck & Co. v. Stiffel Co., supra, that when an article is unprotected by a patent or a copyright, state law may not forbid others to copy the article. To forbid copying would interfere with the federal policy, found in Art. 1 §8, Cl. 8 of the Constitution and in the implementing federal statutes, of allowing free access to copy whatever the federal patent and copyright laws leave in the public domain." 376 U.S. at 238.

[17] *Sears Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964).

[18] *Compco v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964).

[19] The similarity between the present case and the *Sears* and *Compco* cases is effectively demonstrated by comparing the question presented here with the questions presented in those cases, both of which are referred to in the respective opinions. In *Sears*, Justice Black states: "The question in this case is whether a State's unfair competition law can, consistently with the federal patent laws, impose liability for or prohibit the copying of an article which is protected by neither a federal patent nor a copyright." 376 U.S. at 225.

Despite the plain and unequivocal holdings of this Court in *Sears* and *Compco* to the effect that "a State may not, when [an] article is unpatented and uncopyrighted, prohibit the copying of the article itself." *Sears*, 376 U.S. at 232-33, the lower court here has prohibited the copying of unpatented and uncopyrighted sound recordings under a theory of state law unfair competition. To justify this unwarranted refusal to follow the spirit and the letter of this Court's decision in *Sears* and Compco, the lower court has found "persuasive if not indeed mandatory" (A. 14b) several cited state and federal decisions, decided after *Sears* and *Compco*, that somehow conclude that the duplicating of sound recordings is "appropriation" rather than "copying" and therefore not within the reach of *Sears* and *Compco*.

It is earnestly submitted, however, that the purported distinction between so-called appropriation and copying is entirely illusory. Reproducing a sound recording is simply one form of copying, and whether it be labeled copying or appropriating is purely a semantical difference without legal distinction. That is, in *Sears* and *Compco*, the copied lamp fixtures were of a physical nature, and the defendants there used the best means available to reproduce exactly these products, while in the present case, the incorporeal nature of a sound recording can only be reproduced by duplicating the sounds themselves as petitioners here have done. The essential point is that any difference between the situation in *Sears* and *Compco* and the situation in the present case lies solely in the legally inconsequential nature of the item copied, and not in the method employed to make a copy, whether it be labeled appropriating or duplicating or simply copying. It would be anomalous indeed to suppose that this

Court intended to authorize the copying of all unpatented and uncopyrighted products on the market except sound recordings which, because of their incorporeal nature, would have a special monopoly status even greater than that which is awarded under the federal patent and copyright laws.

This alleged distinction between copying and appropriating has recently been found to be without substance by Professor Melville Nimmer, who is generally regarded as the leading authority on copyrights. In 1 *Nimmer On Copyrights* 35.224, pp. 146.22-23 (1972), the author states:

> "It is difficult to see any substance in this asserted distinction between 'copying' and 'appropriation.' How does 'appropriation' in record piracy differ from 'copying' in *Sears* and *Compco*? In neither case is there an actual taking of the plaintiff's tangible work product. In each case there is a reproduction of the plaintiff's creative work. It is true that in the case of record piracy such reproduction is accomplished by mechanical means rather than via the human hand or ear, but why is that significant? Could any greater state law liability attach to the photographic reproduction of a Rembrant (or other public domain painting) than would be true in the case of a free hand copying?
>
> The Congressional copyright powers clearly include the right to prohibit reproduction of sounds by tape or other mechanical duplication. Indeed, it is only this form of reproduction that Congress has elected to prohibit under the Sound Record Amendment. Assuming, then, the rationale of *Sears* and *Compco*, Congressional withholding of copyright protection against such reproductions (as was the

case prior to the Sound Recording Amendment) in effect constitutes a federal policy that permits such reproductions to be made, and that (absent a Congressional declaration of non-preemption) may not be countered by state law, whether or not such reproductions are charterized as 'misappropriations' rather than as copies."

The same conclusion was recently reached by Judge Layton in *International Tape Manufacturers Association v. Gerstein*, ____F. Supp. ____, 174 USPQ 198, 207 (S.D. Fla. 1972) where he states:

"With deference, this Court disagrees with the conclusion stated in Tape Industries [Association of America v. Younger, 316 F. Supp. 340 (C.D. Cal. 1970)], because it cannot accept the distinction drawn between physical appropriation and copying. If Sears had gone to a store and brought a Stiffel lamp, then made a mold thereof, using the mold for the production of Sears lamps, we would, in this Court's view, have been presented with a situation exactly analogous with Tape Industries. If that situation had been presented to the Sears Court, the result in that case would probably not have been the least bit affected. The focus of both Sears and Compco was the artificial creation of patent or copyright protection afforded to unpatentable or uncopyrightable work, not the manner in which the works were reproduced."

It seems clear, then, as Judge Layton suggests, the thrust of this Court's decision in *Sears* and *Compco* is not limited in any way by the particular article copied or the method used in producing the copy. Rather, these decisions reflect a basic constitutional policy to the effect that any article which is not protected by the federal patent and copyright laws is in the public domain and can, therefore, be freely "copied in every detail by whoever pleases." *Compco*, 276 U.S. at 238.

Thus, while Congress has recently amended the Copyright Act to permit limited federal copyright protection for sound recordings fixed between February 15, 1972, and January 1, 1975,[20] Congress has never authorized copyright protection to pre-February 15, 1972, sound recordings[21] and "it has become clear beyond debate that the Copyright Act, apart from the Sound Recording Amendment, excludes sound recordings from copyrightability."[22] Since Congress has deliberately left sound recordings fixed prior to February 15, 1972, in the public domain, a State may not, under its laws of unfair competition, grant perpetual protection to such sound recordings. As this Court noted in *Sears*, "Just as a State cannot encroach upon the federal patent laws directly, it cannot under some other law, such as that forbidding unfair competition, give protection of a kind that clashes with the objectives of the federal patent law." 376 U.S. at 231.

Finally, it is significant that U.S. Department of Justice has publicly expressed itself in favor of petitioners' view regarding the proper scope to be applied to *Sears* and *Compco*. In an opinion letter[23] submitted by

[20] Public Law 92-140, Amending the Federal Copyright Act, Title 17, U.S.C.

[21] The problem of whether sound recordings should be the subject matter of a limited federal monopoly under the Copyright Act is not new. Between 1906 and 1951, no less than thirty-one bills which provided copyright protection for sound recordings were introduced in Congress (Staff of Subcomm. on Patents, Trademarks, and Copyrights, Senate Comm. on the Judiciary, 86th Cong. 2nd Sess., *The Unauthorized Duplication of Sound Recordings*, U.S. Senate Study No. 26 by B. Ringer, pp. 21-37). None of these bills were enacted.

[22] 1 *Nimmer on Copyrights* §35.21 p. 146.14 (1972).

[23] Hearings on S. 646 and H.R. 6927, House of Representatives Committee on the Judiciary, Subcommittee No. 3, 92nd Cong. 1st Sess. 1971, pp. 121-23.

the Office of the Deputy Attorney General to the House of Representatives Committee studying Senate Bill 646, it is stated:

> "We believe that extending copyright to recordings is the soundest, and in our interpretation of Sears and Compco, the only way in which sound recordings should be protected. Copyright protection is narrowly defined and limited in duration, whereas state remedies, whose validity is still in doubt, create broad and unwarranted perpetual monopolies."

CONCLUSION

Upon all of the foregoing, petitioners respectfully urge this Court to grant the requested Writ of Certiorari.

Respectfully submitted,

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APPENDIX A

IN THE
COURT OF COMMON PLEAS
STATE OF SOUTH CAROLINA
COUNTY OF AIKEN

Columbia Broadcasting System, Inc., *Plaintiff,*	)	
v.	)	ORDER
Custom Recording Company, Inc. Charles A. Schafer, Jenny Hightower, and John Doe 1 through John Doe 200, *Defendants.*	)	

This is a motion for a temporary injunction where the plaintiff alleges that defendants have "pirated" or appropriated (in the recording industry, this practice is referred to as "disklegging") performances embodied in plaintiff's recordings by acquiring a copy of the recordings and transposing the performance onto their own tapes which are then sold by defendants in competition with plaintiff. Plaintiff asserts that this conduct by defendants amounts to unfair competition and asks that defendants be temporarily enjoined from these practices.

As was aptly stated by the North Carolina court in *Liberty/United Artists v. Eastern Tape Corp.*, 180 S.E.(2) 414 (N.C. 1971), the plaintiff's allegation that defendants have unfairly competed with him raises the question:

"Has the plaintiff's legitimate business been damaged through acts of the defendants which a court of equity would consider unfair?" Resolution of this issue necessitates the court's balancing of two variant interests. On one hand, a sense of equity urges the court to grant relief to prevent the unjust enrichment of the defendants. On the other hand, the court may be tempted to deny relief because of a fear of monopoly and consequent injury to consumers and the public interest.

In order to resolve this issue it is necessary to look into the history of the law of unfair competition.

The law of unfair competition developed from judicial protection of trademarks and trade names by the English courts. This theory of recovery, denominated "passing off," developed into a well defined cause of action with two requisite elements. First, the original name or mark must have acquired a secondary meaning–the association in the mind of the consuming public of the name or mark with a particular source. A secondary meaning in the name or mark indicated that the products sold under it had developed some degree of good will among purchasers. This good will would be protected by the courts where the second requisite element appeared–a degree of similarity of a second name or mark to the original such that the buying public would be led to believe that similar or related goods marketed by the second entrant emanated from the original entrant.

The doctrine of unfair competition has provided the recording companies with substantial protection against "diskleggers."

The theory of unfair competition was initiated by equity to prevent a person from profiting "from the labor, skill, expenditures, and reputation of others."

Courts granted relief because of the two wrongs which were inflicted: (1) the deceit and fraud on the public; and (2) the misappropriation of the benefits of a name, reputation, or business good will belonging to another. Subsequent cases extended the concept of unfair competition beyond passing off, finding that the misappropriation alone of another's work product was sufficient to warrant relief from an unfair business practice. This trend was initiated by the Supreme Court in *International News Service v. Associated Press*, 248 U.S. 215 (1918) where the Court found that even in the absence of misrepresentation the INS could not appropriate news dispatches from AP papers and bulletin boards.

At early common law an author had a literary property interest in his works. This literary property right was later exchanged for a statutory right by the enactment of the Statute of 8 Anne. The effect of the statute was to "dedicate" any common law copyright after there had been a "general publication." Whether or not there had been a general publication was a factual question based on the scope of the publication of the work in question. *Cheney Bros. v. Doris Silk Corp.*, 35 F.(2) 279 (1929).

The United States Constitution gives Congress the power "to promote the progress of Science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries." Implementation of this power is found in the Copyright Act, which enables the composer to secure a copyright in his musical composition. *The mechanical reproduction of the musical composition, however, is not copyrightable.* Since their records are not protected against pirates by federal statute, recording companies must seek protection under state law. The

owners of noncopyrightable property interests have advanced several arguments in seeking protection, but the theories of common law copyright and unfair competition have been employed most frequently. At common law, authors had the right of first publication of their literary work. Similarly, recording companies have sought the protection of common law copyright on the basis that recording is an art and that a record is an artistic creation finding expression through the medium of mechanical reproduction. Courts generally have rejected the application of the common law copyright doctrine to records on two grounds: (1) insufficient proprietary interest to warrant protection; and (2) dedication to the public domain by the sale or records. See e.g. *RCA Manufacturing Co. v. Whiteman*, 114 F.(2) 86. Whether plaintiff possesses a common law copyright entered in his property is not at issue in the instant case as South Carolina has enacted an anticommon law copyright statute. (S.C. Code §66-101)

The basic distinction between statutory copyright and common law copyright is predicated upon the concept of publication. The sale of a recording is a publication such as divests the common law copyright (which is reposed in the artists until said publication) if the thing published can be copyrighted under the copyright statute. Therefore, while the musical composition *can* be copyrighted, the performance by the artist of that composition cannot be and, therefore, sale of the recorded performance does not constitute a performance such as divests the artist of his common law copyright. If the composition itself is copyrighted, one of the rights which the copyright owner possesses is the right to record said composition. (This is known as a "mechanical right.") Once this mechanical reproduction right has been exercised, any other person

may also record the composition (usually by employing a different performer than the one employed by the copyright owner) by paying 2 cents per record manufactured to the copyright owner. (Thus, one may purchase a performance of "White Christmas" by any number of performers on any number of labels while the composer collects his 2 cents per record during the statutory period.)

As suggested by the above, passing off (or palming off) is only one facet of the body of unfair competition law. Other causes of action deemed to be part of the general category of unfair competition are founded on allegations of false advertising, price fixing, market control tactics, purloining of trade secrets, disparagement of goods and misappropriation. It is with misappropriation that this case is concerned.

The misappropriation doctrine was spawned by the celebrated *International News Service v. Associated Press*, supra, case decided by the United States Supreme Court well over a half century ago. In that case International's use of AP's news-gathering machinery and the time differentials allowed International to beat AP to press on the West Coast with AP's own news. The Court recognized a "quasi-property" right in AP, only good against its competitor and based on the expenditure of considerable labor, skill, and money to produce the material in issue. This "property" was protected from misappropriation by a competitor to the extent necessary to give AP first use of the news it had gathered in all the areas of the syndicate's publication. The rule of the case, if one can be stated, is that one who by the expenditure of time and money has developed something of peculiar and timely commercial value is protected from another who would appropriate that value and use it to his own advantage simultaneously and in the same manner as the developer.

Therefore, a cause of action for misappropriation must be posited upon the twin allegations of a direct competition with the plaintiff by way of the use of the appropriated subject itself. The cause of action, therefore, is bottomed in equitable principles favoring protection of some ill-defined proprietary interest in a legally cognizable but non-statutorily sheltered interest.

The first case to present a straight piracy (disklegging) factual situation was *Fonotopia v. Bradley*, 171 F. 951 (1909). In that case, the plaintiff recording company sought to enjoin the duplication of its records, which were being sold by the pirate at a cut rate in competition with the plaintiff's product. The court granted the injunction and presented the following justification:

> It cannot now be determined how far such appropriation of ideas could be prevented; but it would seem that where a product is placed upon the market, under advertisement and statement that the substitute or imitating product is a duplicate of the original, and where the commercial value of the imitation lies in the fact that it takes advantage of and appropriates to itself the commercial qualities, reputation and salable properties of the original, equity should grant relief. *Id.* at 964.

It therefore appears that, here, the court's reasoning smacks more of classic passing-off than pure misappropriation as pontificated by the United States Supreme Court in *INS* in 1918.

This perfect record of plaintiffs' recoveries was continued in *Waring v. WDAS*, 26 F.S. 338. Here the plaintiff, Fred Waring, had sold many copies of his recordings with the limitation expressly stated on the label of each record that it was not to be used for radio

broadcast. The defendant used the records in violation of this restriction, but before playing each announced that it was a mechanical reproduction and not Waring's orchestra itself. The court characterized the restriction as an "equitable servitude" and enjoined further broadcasts by the defendant.

In *RCA Manufacturing Co. v. Whiteman*, 114 F. (2) 86 (1940), Judge Learned Hand in a well reasoned opinion denied injunctive relief. The facts were, in all important aspects, the same as those in the *Waring* case, but the legal conclusions reached were quite different. All of the earlier cases mentioned above were argued at length, and Judge Learned Hand refuted the analysis of each of them. With brevity and perception he set forth the common law definitions of dedication and publication, and assumed without deciding that the creations of Whiteman and the recording company were initially protectible, i.e., novel and concrete, concluding: "(W)e think that the 'common law property' in these performances ended with the sale of the records and that the restriction did not save it; and that if it did, the records themselves could not be clogged with a servitude."

Judge Hand also addressed himself to plaintiff's contention that defendant's conduct was tantamount to interference with contractual relations by conclusively refuting the "equitable servitude" theory of past cases opining that RCA was powerless to impose such a servitude on a record and, therefore, any contractual promise to that effect was a nullity.

Shapiro, Bernstein & Co. v. Miracle Record Co., 91 F. Supp. 473 decided in 1950, differs somewhat from the earlier cases discussed here in that, instead of duplicating

plaintiff's entire work, the defendant duplicated only the base theme of plaintiff's music and added his own treble. The court found that the plaintiff had made a dedication of his common law copyright, if any, by allowing his composition to be reproduced and sold. The case reiterates the position of the court in *RCA Manufacturing Co. v. Whiteman,supra,* that the plaintiff must recover, if at all, on the basis of his own rights in the work and that since he had no statutory copyright and no common law copyright which would survive a publication, the court would be embarking on legislative jurisprudence if it granted him relief.

The facts of *Supreme Records, Inc. v. Decca Records, Inc.*, 90 F. Supp. (1950), were substantially the same as *Shapiro, supra* and the holding echoed that of the *Shapiro* court.

Metropolitan Opera Assn., Inc. v. Wagner - Nichols Recorder Corp., 101 NYS (2) 483 (1950), was a case tailor-made with equities in favor of the recording artist and recording company and replete with factors making it possible for the court to override precedent and caution in order to allow recovery. The case involved a straight piracy situation, but the recording artist was the world-renowed Metropolitan Opera Association. The duplication by defendant was a mediocre reproduction taken "off the air." The result was a great discrepancy in the cost and quality of defendant's records, as compared to plaintiff's.

The court said, "The statement of a sufficient cause of action in unfair competition, in the last analysis, is therefore dependent more upon the facts set forth and less upon technical requirements than in most causes of action, at 489. It should also be pointed out that in *Opera*, the duplication was decidedly inferior to the original.

Capitol Records, Inc. v. Mercury Record Corp., 221 F. (2) 657 (1955), involved still another straight piracy situation. The court held for the plaintiff and in its justification overruled *RCA*, Judge Hand retiring to the ranks of the dissenters. The court did not present itself as being critical of the logic of the *RCA* case, but rather gave as the sole compelling reason for its decision that it was forced to follow the substantive law of New York, which by that time had been enunciated in the *Metropolitan Opera Association case*, 221 F. (2) 657 (1955).

The courts in *Columbia Broadcasting System, Inc. v. Documentaries Unlimited*, 248 NYS (2) 809 (1964), appropriation of news reports and *King v. Mr. Maestro, Inc.*, 224 F. Supp. 101 (1963), copying of a Martin Luther King speech both held for plaintiff on misappropriation theory.

In 1964, the United States Supreme Court, the defendant argues, threw cold water on this line of reasoning.

The twin decisions of *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964), and *Compco Corp. v. DayBrite Lighting, Inc.*, 376 U.S. 234 (1964), have had a profound effect on the law of unfair competition. While defendants argue that *Sears - Compco* vitiated misappropriation as a legal doctrine, plaintiffs contend just as vigorously that the sweeping language of *Sears - Compco* has not robbed the *INS* spawned doctrine of its viability.

In *Sears, Roebuck & Co. v. Stiffel Co., supra*, a small manufacturer of pole lamps, alleged that Sears copied its lamp produced and marketed the cheaper copy, and failed adequately to identify the copy as its own lamp. Stiffel's lamp was not the first on the market, but

because of its distinctive styling and other attractive features, it was a commercial success. While it was shown at trial that Sears marketed its substantially identical lamp at approximately Stiffel's wholesale price, the only evidences of confusion among purchasers were inquiries of Stiffel as to whether its lamps differed from the Sears lamps and complaints by Stiffel purchasers that the price of the Sears lamp was considerably less than that of the Stiffel lamp.

In *Compco Corp. v. Day-Brite Lighting, Inc., supra* the plaintiff had marketed for several years a lighting fixture with a distinctive reflector, cross-ribbed to provide both strength and attractiveness. Defendant's predecessor had produced and marketed a similar fixture, and defendant continued to do so, clearly labelling the product and selling it only through distributors who did not handle competing products. The only evidence of confusion was a request made of plaintiff to service some of the defendant's fixtures.

In each case the federal district court found the plaintiff's design patent invalid, but awarded relief based on unfair competition under state law. The Court of Appeals for the Seventh Circuit affirmed in both cases, finding that the likelihood of confusion was a sufficient basis for recovery under the law of Illinois. On certiorari, the Supreme Court reversed the companion cases, holding that, where articles are unprotected by federal patent or copyright law, they are in the public domain, and states may not prevent the copying of such articles, since such protection would conflict with federal law.

Two conflicting views of the effect of *Sears* and *Compco* on misappropriation have been taken by both the commentators and the courts. One view is that the

rule of the cases, allowing any competitor to take advantage of all material in the public domain as long as the public is not deceived, pre-empts any state relief for misappropriation. The other view refuses to apply the broadly stated rule to areas beyond product simulation on the ground that a different right or interest is protected by misappropriation.

Since the motion before me involves solely the question of a temporary injunction it is not necessary, at this time, to pass upon the merits of this case.

Proceeding chronologically, four cases were decided in 1964, three of them by New York state courts. The non-New York state case was *Cable Television, Inc. v. KUTV, Inc.*, 335 F. (2) 348 (1964), which was decided largely on the ground of interference with contractual relations which is, an ancillary issue. In an anti-trust action by a community antenna station, the defendant local commercial station entered a counter-claim based on unfair competition. It claimed that the plaintiff's simultaneous broadcast of network shows deprived it of its first broadcast rights under contracts with the major networks. The Ninth Circuit decided the case after *Sears* and *Compco* and refused to grant the unfair competition relief allowed in the lower court. The court of appeals held that the Supreme Court cases stated a policy of allowing free copying of all material in the public domain and that copyright protection was the only remedy against the community antenna station.

The trilogy of New York cases involved variations of the same basic theme. In *New York World's Fair 1964-1965 Corp. v. Colourpicture Publishers, Inc.*, 251 NYS (2) 885 (1964), a preliminary injunction was granted to a licensee who had the exclusive right by

contract with the World's Fair to distribute picture postcards representing the buildings and exhibits. The defendant evidently took its own photographs and independently produced its own postcards. The dissent questioned the existence of any property right in the buildings sufficient to control the taking of photographs of them for commercial use, and concluded that *Sears* and *Compco* allowed free copying in the absence of copyright protection.

The New York court in *Flamingo Telefilm Sales, Inc. v. United Artists Corp.*, 254 NYS (2) 36 (1964), introduced a theory of recovery in misappropriation cases which was posited upon a distinction between copying and appropriation. That is, between simulation of the product and actual piracy. The court reasoned that such a delineation could be made whenever the plaintiff derived his licensing rights from the originator.

Another New York court had occasion to comment on this area of the law in *Capitol Records, Inc. v. Greatest Records,* 252 NYS (2) 553 (1964). The court in that case enjoined the defendants from transposing plaintiffs records onto their own albums. *Sears* and *Compco* were distinguished on the ground that although they allowed the copying of an article in the public domain, it did not follow that the same was true as regards actual appropriation of the subject of the licensing contract. The court concluded that neither *Sears* nor *Compco* "stands for proposition that this plaintiff is not entitled to protection against the unauthorized appropriation, reproduction or duplication of the actual performances contained in the records."

A decision of signal importance to the defendant's position was rendered by the First Circuit Court of Appeals in 1967. In *CBS v. DeCosta*, 377 F. (2) 315 (1967), CBS as developer of the television show "Have Gun, Will Travel," was sued by a Rhode Island mechanic who claimed that for ten years he had been gratutitously playing the role of "Paladin" in rodeos, auctions and parades. The characters where suspiciously similar–black mustache, black flatcrowned hat with a silver decoration, concealed derringer, the same chess piece decoration on the holster, and closely similar calling cards. The cards distributed by the plaintiff bore his likeness and the words "Have Gun, Will Travel," and "Wire Paladin, N. Court St., Cranston, R.I." The First Circuit first held that the remedy of misappropriation no longer existed, because the *INS* case was a federal common law decision and further that its theory was clearly overruled by *Sears* and *Compco*. Since the character of "Paladin" was within the scheme of the copyright law, it could be copied at will if in the public domain.

In *Grove Press, Inc. v. Collectors Publications, Inc.*, 264 F. Supp. 603 (1967), the court granted an injunction enjoining the photographic copying of a book in the public domain and the sale of books made by defendant from such copies. The court held that *Sears Compco* were not preclusive of relief in a situation of "unfair appropriation of the property of a competitor" and concluded that:

> "Defendants first edition is more than mere copying of plaintiff's work, the Grove edition. In view of plaintiff's expenditure of substantial sums in setting type and engraving plates, it would constitute unfair competition for defendants to appropriate the value and benefit of such

expenditure to themselves by photographing and reproducing plaintiff's book through the offset-lithography process, thereby cutting their own costs and obtaining an unfair competitive advantage." *Id.* at 606-7.

The factual situation in a recent California state case was almost identical to that of the instant case. In *Capitol Records, Inc. v. Erickson*, 82 Cal. Rptr. 798 (1969), the court utilized the misappropriation doctrine to reach its decision. The court acknowledged that the law protects competition in business but opined that this protection does not give sanction to a competitor's usurpation of anothers expenditure and industry.

It should be noted that while the factual situations are virtually the same and the decision is, therefore, quite persuasive, the *Erickson* case differs from the instant case in one dramatic particular–South Carolina has enacted an anti-common law copyright statute whereas California had legislatively declared that the transposing of recorded sounds from one record, etc. to another constituted a misdemeanor. *Cal. Penal Code* 653(h) (West Supp. 1969). It should be remembered that California and New York are the greatest repositories of recording companies and this probably explains the divergent statutes.

Illinois joined the expanding list of states who offer judicial shelter to beleaguered recording companies in 1970 when *Capitol Records, Inc. v. Spies*, 264 N.E. (2) 874 (1970), was decided. In reversing the trial courts decision to deny plaintiff's request for an injunction the court distinguished *Sears - Compco* on their facts and held that "While in *Sears - Compco* the court was concerned with the copying of products which were not patented, in the instant case Spies was actually appropriating another's property."

The most recent judicial pronouncement on the misappropriation issue was rendered by the North Carolina Court of Appeals earlier this year, in the case of *Liberty/United Artists, Inc. v. Eastern Tape Corp.*, 180 S.E. (2) 414. The North Carolina court affirmed the decision of the trial court and held that:

> In appropriating the fruits of plaintiff's initiative, skill, effort and expense to their own use, defendants obviously circumvent a great portion of the cost of engaging in the recording business. They, thereby, gain substantial competive advantage over plaintiff. This conduct, it seems to us, amounts to unfair competition and is subject to restraint. *Id.* at 416.

The *Liberty* case is very compelling in light of one salient fact–South Carolina and North Carolina have identical anti-common law copyright statutes.

In my opinion, the arguments advanced by the plaintiff, that defendant is passing off, is easily refuted by the affidavits offered by defendant which clearly evince discernible differences between plaintiff's and defendant's "dress and packaging" of their products. (i.e., their labels, appearances, advertising, etc.) In addition, defendant has proffered affidavits which purport to prove that not only is the public not deceived or defrauded into thinking they are purchasing plaintiff's product when in fact they are buying defendant's, but also that defendant's product is superior to plaintiff's.

What remains is alternative legal justifications for granting relief for misappropriation and two arguments for denying relief even if the justifications are sound.

Of basic concern to any court is the degree of impingement upon free competition which would result from the granting of relief in a misappropriation case.

The *Liberty* case is directly in point and extremely persuasive. Defendant concedes the strength of precedent in plaintiff's favor but argues that the copying-misappropriation dichotomy is one bottomed on an erroneous premise. The crux of defendant's position is that "any difference between the situation in *Sears-Compco* and the situation in the present case lies solely in the nature of the item copied, and not in the method employed to make a copy, whether it be labeled appropriating . . . or simply copying." The defendant attacks this distinction between simple copying and copying the "thing itself" as being a plastic one which is devoid of both judicial sanction and logic. Its position is simply that *Sears-Compco* allows no such exclusionary status for sound recordings.

A cursory examination of the background of the anti-common law copyright statute is in order. While the state courts of South Carolina have not rendered a decision concerning the doctrine of common law copyright it was a North Carolina Federal District Court decision on this subject which precipitated the enactment of this statute. In *Waring v. Dunlea*, 26 F. Supp. 338 (1939), the court granted an injunction sought by the plaintiff, a renown orchestra performer, against the defendant who was broadcasting recorded performances of Waring's renditions of musical arrangements over the radio. While Waring had recorded these performances onto records, the records contained notices that they were to be used only on a certain radio program and only by a distributee of Waring. The court upheld this restriction theorizing that Waring had retained some sort of proprietary interest in the recording–the common law copyright. The court concluded that dissemination of the recordings for a profit did not constitute a publication

and that, therefore, he was "entitled to decide whether and when, and how, and for whose advantage, his rendition of musical composition shall be mechanically reproduced."

Both the North Carolina statute (G.S. 66-28) and the South Carolina statute (*S.C. Code Anno.* 66-301, 1962) were enacted subsequent to the *Waring* decision and plaintiff alleges—as the North Carolina court held in *Liberty*—that the statutes were aimed specifically, and only, at rectifying the situation created by *Waring*. The South Carolina and North Carolina statutes are identical and, therefore, the construction of that statute by the North Carolina court is interesting. The defendants in both cases urged and are urging a strict construction of 66-28 and 66-301, respectively, so as to preclude the court from following the persuasive Illinois, California and New York cases.

The defendant advances three arguments against an interpretation similar to that rendered by the North Carolina court. First, the defendant urges the court to adhere to the plain meaning rule in interpreting the South Carolina statute.

Second, the defendant implies that the legislative history of our statute differs from that of the North Carolina statute.

Finally, and most effectively, the defendants argue that the circuit court should defer to the Supreme Court of South Carolina for the initial interpretation of this important statute.

The defendant also vigorously contends that to rule for the plaintiff would be in effect, to rule against the public interest.

For this court to pass upon this phase of the case would in effect pass on the merits. This I do not think is

proper for me to do under the motion now before me, and nothing in this order will be so construed.

Since this is a novel question in this state I have briefly reviewed the history of the law of unfair competition and many cases decided by other states.

It is to be remembered that the motion before this court is for a temporary injunction.

The decisions of the Supreme Court of South Carolina make it clear that the plaintiff must be able to establish that it has a prima facie case *Transcontinental Gas Pipe Line Corp. v. Porter*, 252 S.C. 478, 167 S.E. (2) 313 (1969), and "it must appear, in view of all the circumstances, that the injunction is reasonably necessary to protect the legal rights of the plaintiff pending the litigation." *Childs v. City of Columbia*, 87 S.C. 566, 568, 70 S.E. 296, 297 (1911).

It is well recognized that "monopolies in trade or business in this country . . . are generally denounced as odious, intolerable, and contrary to public policy and common right." *36 Am. Jur., Monopolies, Combinations, and Restraints of Trade*, § 4.

It is to be noted also that the problem of whether phonograph records should be the subject of a federal monopoly under the federal copyright statutes is not new. Between 1906 and 1951, no less than thirty-one bills which provided protection for phonograph records have been introduced in Congress (Staff of Subcomm. on Patents, Trademarks and Copyrights, Senate Comm. on the Judiciary, 86th Cong., 2nd Sess., *The Unauthorized Duplication of Sound Recordings*, U.S. Senate Study No. 26, by B. Ringer, pp. 21-37), and since 1951 at least three other such bills have been introduced. None of this

legislation has passed, and its defeat is attributable to the conflicting interests of different economic groups; i.e., authors and users v. performers and manufacturers. Note 51 *Minn. L. Rev.* 746, 754 (1967).

It is well settled in South Carolina that "the issuance of a temporary injunction is a drastic remedy," *Epps v. Bryant,* 218 S.C. 359 (1950), 62 S.E. (2) 832, and that "injunctions should only be granted where some irreparable injury is threatened for which the parties have no adequate remedy at law." *Greenwood County v. Shay,* 202 S.C. 16 (1943), 23 S.E. (2) 825, 828.

The only possible damage which will result from a denial of plaintiffs motion is a loss of profits which will be readily ascertainable and recoverable and hence such damages are not irreparable. *Graham v. Triangle Publications, Inc.,* 344 F. (2) 775 (1965).

Also, it is significant in this regard that defendants have presented the affidavit of Alton G. Murchison III, which shows that all copyright royalties due under the Federal Copyright Act (Title 17, U.S.C.) were paid by defendants to the composers of every copyrighted musical composition used by defendants, and this affidavit refers to financial and production records kept by defendants to facilitate the payment of the federal copyright royalties. It is apparent that such records provide a certain record for the determination of defendants' activities.

Finally, the Supreme Court of South Carolina has recently stated that:

> "The sole object of a temporary injunction is to preserve the subject of controversy in the condition which it is at the time of the Order until an opportunity is afforded for a full and deliberate

investigation and to preserve the existing status during litigation." 244 S.C. page 480, *County Council of Charleston v. Felkel*, 137 S.E. (2) 577.

It is apparent to this court that the issuance of a temporary injunction would not serve "to preserve the existing status" in the present case. The defendant Custom Recording Co. has been in the business of manufacturing tape cartridges for approximately a year, and plaintiff has undoubtedly been aware of this activity. Therefore, plaintiff should not now be heard to complain that it will suffer irreparable damage unless defendants entire business activity is immediately and severely restricted. Additionally, defendant Custom Recording Company employs approximately thirty-five (35) full time employees, and the issuance of a temporary injunction will greatly jeopardize the jobs of these people.

Manifestly, then, a proper balance of equities will not be obtained if defendants' entire business is substantially restricted, and plaintiff is awarded substantially all that it seeks without a trial on the merits; and here the pleadings have been filed and this matter is ready for trial.

In my discretion the plaintiff has failed, at this point, to establish irreparable harm.

IT IS ACCORDINGLY, ORDERED ADJUDGED AND DECREED that the plaintiff's motion for a temporary injunction be and the same hereby is denied.

J.B. NESS, RESIDENT JUDGE
SECOND JUDICIAL CIRCUIT

Bamberg, South Carolina
September 25, 1971

APPENDIX B

THE STATE OF SOUTH CAROLINA
In The Supreme Court

Columbia Broadcasting System, Inc.
Appellant.

v.

Custom Recording Company, Inc., Charles A. Schafer, Jenny Hightower, and John Doe I through John Doe 200-
Respondents.

Appeal From Aiken County
J.B. Ness, Judge

Opinion No. 19430
Filed May 29, 1972

REVERSED

Lybrand, Rich and Cain; and James E. Austin, all of Aiken; and McKay, McKay, Black, Sherrill, Walker & Wilkins, of Columbia, for appellant.

Toole and Toole, of Aiken; Bryant, Fanning and Yarborough, of Orangeburg; Levine, Goodman and Murchison; and Richards and Shefte, all of Charlotte, North Carolina, for respondents.

LITTLEJOHN, A.J.: Columbia Broadcasting System, Inc., ("CBS") sought to enjoin defendants' "pirating" or appropriating performances embodied in phonograph recordings manufactured by its Columbia Records Division. In the recording industry this practice is known as ("disklegging"). The lower court declined to grant a temporary injunction and CBS has appealed.

CBS, in its complaint filed in the Court of Common Pleas for Aiken County in May, 1971, alleged that: CBS has for many years been engaged in the manufacture and sale of phonographic recordings in the form of disks and magnetic tapes. In the course of its business CBS has entered into contracts with various well-known performing artists and groups who have granted to CBS the exclusive right to manufacture, reproduce, and sell phonographic recordings embodying their performances. Under these contracts CBS has also been granted the sole and exclusive ownership of such performances so rendered and embodied in phonographic recordings, and the sole and exclusive right to use the name and likeness of these artists in connection with the sale and commercialization of such recordings.

Contracts have also been entered into by CBS with the American Federation of Television and Radio Artists and the American Federation of Musicians. Upon the sale of its recordings, CBS becomes liable to pay fees to designated trustees for the benefit of performing artists and musicians, and also becomes liable to pay specified royalties to the artists whose performances are embodied therein.

CBS has purchased or otherwise acquired costly, specialized machinery and equipment and has employed and compensated highly skilled personnel for the purpose

of recording such performances and reproducing such recordings. These recordings are manufactured to conform to the highest musical and technical standards, utilizing equipment and procedures which have been developed and perfected at great expense. The recordings, and the names of the performers themselves, are advertised and promoted at great expense to CBS. Through such expenditures and other promotional activities, CBS has built substantial public acceptance of these performances and recordings, and has established much good will.

The above allegations are neither admitted nor denied by defendants in their answer.

CBS's complaint contains further allegations which are specifically denied by defendants: It is alleged that CBS-manufactured recordings are acquired by defendants and are then re-recorded onto magnetic tapes which defendants, using the names of the original artists, then sell in competition with CBS. According to CBS, the quality of defendant's reproductions is inferior to CBS's original recordings. By so reproducing CBS's recordings, CBS alleges, defendants are able to avoid a great many of the legitimate expenses which CBS incurs. Such activity, CBS says, amounts to unfair competition, unlawful appropriation, unjust enrichment, wrongful deception of the public and unlawful trading on CBS's good will and public acceptance. CBS finally asserts that the inferior quality of defendants' tapes directly and adversely reflects upon CBS's products, that CBS has suffered extensive damages through lost sales and profits, and that CBS will continue to suffer irreparable injuries unless and until defendants' wrongful conduct is enjoined and restrained. A temporary injunction, a permanent injunction, an accounting, damages, etc., are asked in the prayer for relief.

By order dated May 17, 1971, defendants were commanded to show cause why a temporary injunction *pendente lite* should not be issued. By way of answer and response to this order, defendant Custom Recording Company, Inc. states that it purchases phonograph records on the open market, copies or duplicates selected performances therefrom onto magnetic tape, and thereby produces reproductions of the highest fidelity and quality. Such tape is then wound and spliced onto cartridges which are packaged in defendants' distinctive trade dress. Each such tape cartridge contains from eleven to sixteen separate musical performances, usually performed by several different artists or groups of artists.

Defendants' answer set up several defenses. First, they allege that all common law rights attaching to phonograph records or electrical transcriptions have been abolished by statute in South Carolina and that plaintiff is thereby barred from asserting any common law rights to collect royalties or further restrict defendants' commercial use of plaintiff's recordings.

As an additional defense the defendants allege that when phonograph records are sold by CBS on the open market, the records and the musical performances embodied thereon are thereby consigned to the public domain. CBS's assertion of the right to prevent others from copying such records, defendants allege, improperly interferes with the federal monopoly scheme. Accordingly, they say, CBS is barred from asserting such right.

As a further defense it is alleged that each CBS-manufactured tape or disk embodies a large number of different musical compositions. In selecting the performances to be reproduced onto their tapes and disks

CBS deliberately combines musical performances which are known to be popular with performances of unknown popularity and performances known to be unpopular. Thus, defendants say, sale of the popular performances is conditioned upon purchase of the other performances. They contend that this activity, when combined with an asserted exclusive right to control the manufacture and sale of such recordings, is illegal, inequitable, in restraint of trade, and repugnant to public policy.

Defendants prayed for dismissal of the action.

Both plaintiff and defendants submitted affidavits in support of their respective positions.

Plaintiff's request for a temporary injunction was heard on May 29, 1971, by the Honorable J.B. Ness. By order dated September 25, 1971, Judge Ness refused to grant the temporary injunction. Plaintiff has appealed.

The court, in its descretion, County Council of Charleston v. Felkel, 244 S.C. 480, 137 S.E. (2d) 577 (1964), may grant a temporary injunction "when it shall appear: (1) By the complaint, that the plaintiff is entitled to the relief demanded, and such relief, or any part thereof, consists in restraining the commission or continuance of some act the commission or continuance of which, during the litigation, would produce injury to the plaintiff." Code of Laws of South Carolina (1962) § 10-2055.

The two conditions essential to the granting of a temporary injunction were reiterated by this Court in Transcontinental Gas Pipe Line Corp. v. Porter, 252 S.C. 478, 167 S.E. (2d) 313 (1969):

> "First, the complaint must allege facts which appear to be sufficient to constitute a cause of

action for injunction; and, second, on the entire showing from both sides it must appear, in view of all the circumstances, that the injunction is reasonably necessary to protect the legal rights of the plaintiff pending the litigation." [Quoting Childs v. City of Columbia, 87 S.C. 566, 70 S.E. 296 (1911)].

It was also pointed out in that case that:

"When a prima facie showing has been made entitling plaintiff to injunctive relief, a temporary injunction will be granted without regard to the ultimate termination of the case on the merits." [Citing D.W. Alderman & Sons Co. v. Wilson, 69 S.C. 156, 48 S.E. 85 (1904)].

Unquestionably, the lower court had before it a prima facie showing of the facts upon which plaintiff based its plea for relief. The complaint essentially alleged that defendants had appropriated performances embodied in plaintiff's recordings. The defendants' answer essentially admits this. The question, then, which this Court must decide, is: Did the actions of the defendants amount to such a breach of plaintiff's rights as to entitle plaintiff to injunctive relief? If so, then the lower court erred, for "where the case made out by the complainant is perfectly clear, and he has complied with all the requirements of the law for the issuance of an injunction, he is entitled to the injunction as a matter of right." 43 C.J.S. Injunctions § 14, citing Metcalf v. Huntley-Richardson Lumber Co., 170 S.C. 226, 170 S.E. 162, 168 (1933).

Judge Ness' order, and the parties' briefs, contain a lengthy discussion of cases involving unlawful appropriation and exploitation.

A consideration of this matter must begin with International News Service v. Associated Press, 248 U.S.

215, 63 L.Ed. 211, 39 S. Ct. 68 (1918), "one of the most important cases, if not the most, in the law of unfair competition." 2 Callman, Unfair Competition, Trademarks, and Monopolies §60.1 (3d ed. 1968) [hereinafter cited as "*Callman*"]. In that case the parties were competitors in the gathering and distribution of news. Suit was brought to restrain INS from copying news from bulletins and from early editions of newspapers serviced by AP, and from otherwise pirating AP's news. The Court based its decision upon "the question of unfair competition in business" rather than on "the question of property in news matter at common law, or the application of the copyright act." In affirming the district court's grant of a preliminary injunction, the Court said, at pages 239-240:

> "... [D]efendant, by its very act, admits that it is taking material that has been acquired by complainant as the result of organization and the expenditure of labor, skill, and money, and which is salable by complainant for money, and that defendant in appropriating it and selling it as its own is endeavoring to reap where it has not sown, and ... is appropriating to itself the harvest of those who have sown. Stripped of all disguises, the process amounts to an unauthorized interference with the normal operation of complainant's legitimate business precisely at the point where the profit is to be reaped, in order to divert a material portion of the profit from those who have earned it to those who have not; with special advantage to defendant in the competition because of the fact that it is not burdened with any part of the expense of gathering the news. The transaction speaks for itself and a court of equity ought not to hesitate long in characterizing it as unfair competition in business."

The INS case "postulated a new concept of unfair competition in focusing upon the competitive relationship and stressing the reciprocal rights and duties that are peculiar to it and emanate from it. . . . Moreover, the majority opinion recognizes two new causes of action . . . based upon the misappropriation and the exploitation of a competitor's business values." Callman §60.3.

Two 1964 decisions of the United States Supreme Court, Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225, 11 L.Ed. (2d) 661, 84 S. Ct. 784, and Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 234, 11 L.Ed. (2d) 669, 84 S. Ct. 779, are thought by some (e.g., CBS v. DeCosta, 377 F. (2d) 315 (1st Cir. 1967), to have laid to rest the INS doctrine, even though the opinions in those cases do not expressly refer to INS. These cases involved the copying by the defendant of the plaintiff's design of a lamp or light fixture. The Supreme Court held that a state law of unfair competition cannot impose liability for the copying of an article which was not protected by either a federal patent or copyright. In Compco, Mr. Justice Black said:

> "Today we have held [in Sears] that when an article is unprotected by a patent or a copyright, state law may not forbid others to copy that article. To forbid copying would interfere with the federal policy, found in Art. 1, § 8, cl. 8, of the Constitution and in the implementing federal statutes, of allowing free access to copy whatever the federal patent and copyright laws leave in the public domain." [376 U.S. at 237]

The law of unlawful exploitation is, then, somewhat confused at the present time, with INS on the one hand and Sears and Compco on the other. In Callman §60.4(c) we find the following:

"Despite the proliferating confusion generated by Sears and Compco, as reflected in subsequent decisions, it seems that the courts are increasingly inclined to limit the Supreme Court's sweeping statements wherever possible to the area of patented and copyrighted articles rather than to apply them to other areas of unfair competition. Such areas are, for instance . . . misappropriation and exploitation of a business organization such as . . . record . . . piracy. . . ."

The defendants infer that the INS doctrine is no longer viable—although the decision has never been expressly overruled—and that the Sears-Compco holdings govern the determination of this case. For this reason, we limit our consideration to cases decided since those decisions were handed down. We further limit our consideration to cases involving "disklegging," to the exclusion of cases involving other types of alleged misappropriations. We note that the cases in this category have expressed unamimous disfavor toward this practice.

Capitol Records, Inc. v. Greatest Records, Inc., 252 N.Y. (2d) 553, 43 Misc. (2d) 878 (1964), was decided approximately three months after Sears and Compco and involved facts substantially identical to this case. There the complaint alleged unfair competition by the defendants' re-recording of performances by "The Beatles" from Capitol's albums. A temporary injunction was granted, the Court stating that Sears and Compco were "not applicable to the subject matter and devious conduct of defendants which [the] Court [was] presently called upon to deal with."

Capitol Records, Inc. v. Erickson, 82 Cal. Rptr. 798, 2 Cal. App. (3d) 526 (1969), was an appeal from a preliminary injunction restraining defendant's "disk-

legging." After a lengthy discussion of Sears and Compco the Court affirmed the injunction, noting that:

> "... [Defendant] has not merely copied or imitated discs or tapes produced by Capitol, rather, [defendant] has appropriated the product itself—performances embodied on the records.... It is reasonable to conclude that permitting such appropriation would discourage invention and free competition—and that those engaged in the recording industry, would be inclined not to utilize their skill and efforts, and expend large amounts of money, in producing unique recordings, but would wait for a recording to be produced, and then duplicate it and sell it, at maximum profit and with minimum effort and expense."

A third record piracy case involving substantially the same facts as are involved here was decided in Illinois in 1970. Capitol Records, Inc. v. Spies, 264 N.E. (2d) 874 (Ill. App.). The lower court, relying on Sears and Compco, had denied a temporary injunction. In reversing, the appellate court pointed out that:

> "Where as in [*Sears* and *Compco*] the court was concerned with the copying of products which were not patented, in the instant case Spies was actually appropriating another's property. Rather than the *Sears* and *Compco* decisions, we find that the case of [*INS*] is controlling."

In Liberty/UA, Inc. v. Eastern Tape Corp., 11 N.C. App. 20, 180 S.E. (2d) 414 (1971), another case arising under facts basically identical to the facts of this case, Sears and Compco were distinguished on the now-familiar "copying versus appropriating" basis. Of particular interest in that case was the fact that the plaintiff was faced with a statute identical to §66-101 of our Code

(footnote 1, *supra*), both states having enacted it in 1939. In discussing the effect of the statute on that case, the court said, and we agree

> "... It is unlikely that in 1939 the legislature had heard of this type of conduct [record piracy], and we cannot conceive that one of its purposes in enacting G.S. § 66-28 was to make legitimate such unfair competitive practice.
>
> "G.S. § 66-28 was enacted shortly after the Federal District Court for the Eastern District of North Carolina held that Fred Waring had a common law property right in his orchestra's recordings and could prevent defendant from playing the recordings over a radio station without his permission. *Waring v. Dunlea*, 26 F. Supp. 338 (E.D. N.C. 1939). The effect of G.S. § 66-28 was to overrule the *Waring* decision by eliminating any common law right to restrict the use of a recording sold for use in this State. However, we interpret "use," as employed in the statute, to mean the use for which a recording is intended, i.e., the playing of the recording. Thus, under the statute, any record sold in commerce for use in this State may be played privately, publicly, and commercially without restriction. It does not follow, however, that the performance contained on the record can be recorded onto another record and the re-recording sold in competition with the original producer. To so hold would, in our opinion, give a construction to the statute that was never intended."

One further case, thought somewhat dissimilar, might be mentioned at this point. In Tape Industries Association of America v. Younger, 316 F. Supp. 340 (C.D. Calif. 1970), suit was brought challenging a

California statute which makes record piracy a misdemeanor. The plaintiffs in that suit, relying on Sears and Compco, insisted that the statute unconstitutionally intruded on federal copyright policies. In holding that the statute is a "tolerable and permissible state regulation directed against theft and appropriation of a saleable product," the court said:

> ". . . [P]laintiffs in the instant case do not imitate the product of the record companies. They actually take and appropriate the product itself–the sounds recorded on the albums–and commercially exploit the product. *Sears* and *Compco* would cover and immunize the plaintiffs here only if they had copied and imitated the product–that is, if they had listened to the sounds performed and embodied on the records and then had expended the necessary sums to copy and imitate the sounds on their own tapes."

The facts before the lower court are in large measure undisputed. There can be little contest remaining as to the facts when the case is tried on its merits. When one recognizes the legal proposition that "disklegging" is wrongful it becomes clear that a temporary injunction should have been granted. The temporary injunction could have been denied either because (1) defendants' acts were not wrongful, or (2) because sufficient facts were not before the court to warrant an application of the rule of law. We think the lower court erred in failing to directly meet the issue of whether the defendants' acts were wrongful so as to violate plaintiff's rights.

We do not agree with Judge Ness when, in denying the injunction, he reasoned that: "The only possible damage which will result from a denial of plaintiff's motion is a loss of profits which will be readily ascertainable and

recoverable and hence such damages are not irreparable." In Kirk v. Clark, 191 S.C. 205, 4 S.E. (2d) 13 (1939), we said:

> "... whether a wrong is irreparable, in the sense that equity may intervene, and whether there is an adequate remedy at law for a wrong, are questions that are not decided by narrow and artificial rules. The Courts proceed realistically if the threatened wrong involves actual damage; the mere uncertainty of fixing the measure of such damage to the injured party may itself be sufficient to justify the exercise of equitable jurisdiction; and if the available legal remedy in a given case reduces itself to a matter of words, rather than to a matter of efficacy, because of its impracticability, or because the threatened acts may continue during the progress of an action at law, or because successive actions at law would be necessary to protect the plaintiff's rigths, equity will hold that the existence of the legal remedy is not an obstacle to the exertion of the equitable power."

The fact that CBS might litigate hereafter and seek damages is not a basis for denying a temporary injunction under the facts of this case.

We think that the North Carolina Court of Appeals in Liberty, *supra*, correctly recognized the question involved in unlawful competition contests, as: "Has the plaintiff's legitimate business been damaged through acts of the defendants which a court of equity would consider unfair?" The facts of this case demand an unequivocal "yes" to this question. Defendants are surely "reaping where they have not sown." "The transaction speaks for itself and a court of equity ought not to hesitate long in characterizing it as unfair competition in business." INS, *supra*.

We find the reasoning of INS, Liberty, Tape Industries, and the three Capitol Records cases to be persuasive if not indeed mandatory. The parasitic acts of defendants violated plaintiff's legal rights. Injunctive relief should have been granted to protect those rights.

A temporary injunction as prayed for in the complaint is hereby granted. The case is remanded to the lower court for the setting of a bond as provided in Section 10-2057 of the Code and for determination of all other pending issues.

REVERSED.

MOSS, C.J., LEWIS and BRAILSFORD, JJ., concur. BUSSEY, A.J., dissents.

BUSSEY, A.J. (dissenting): This appeal is before us on the briefs and without the benefit of oral argument, pursuant to Rule 29. The proposed majority opinion, in effect, decides, on the merits, a most important question of completely novel impression in this jurisdiction, without the benefit of all the facts; without the benefit of any finding of fact by either a court or jury below; without the benefit of any oral argument; without even attempting to pass upon all the asserted defenses, and without the benefit of an in point decision from a court of last resort of any other jurisdiction. Even the "disklegging" decisions from lower tribunals of other states, relied upon in the majority opinion, are not completely in point factually with the case at bar.

The reversal of the lower court under the circumstances of this case is, to my mind, a complete departure from the basic and fundamental principles which have

heretofore guided this Court in appeals from the granting or refusal of temporary injunctions. The general rule in this State is that, with exceptions not here involved, a temporary injunction is not a matter of right but of grace, resting in the sound discretion of the judge. Pelzer v. Hughes, 27 S.C. 408, 3 S.E. 781; West's South Carolina Digest, Injunction, Key No. 135. Exceptions to the general rule are embodied within the following aptly stated language in the case of Alderman & Sons Co. v. Wilson, 69 S.C. 156, 48 S.E. 85,

> "The authorities hold that where the action is for the *sole purpose of an injunction*, and a temporary injunction is essential to the assertion and *preservation of a legal right*, if established as alleged in the complaint, it would be error of law to refuse a temporary injunction. Strom v. Am. Mortg. Co., 42 S.C. 101, 20 S.E. 16; Seabrook v. Mostowitz, 51 S.C. 434, 29 S.E. 202; Cudd v. Calvert, 54 S.C. 457, 32 S.E. 503; Oil Co. v. Ice Co., 62 S.C. 196, 40 S.E. 169; Riley v. Charleston Union Sta. Co., 67 S.C. 84, 45 S.E. 149." (Emphasis added.)

One essential condition to the granting of a temporary injunction is that it must appear that the injunction is reasonably necessary to protect the *legal rights* of the plaintiff pending the litigation. Childs v. City of Columbia, 87 S.C. 566, 70 S.E. 296.

The instant case is to my mind one in which the matter of a temporary injunction was clearly addressed to the sound discretion of the trial judge, it being clearly distinguishable from any case coming to my attention in which the lower court's refusal of a temporary injunction has been held erroneous. The action is not for the *sole purpose of an injunction* and it is obvious that a

temporary injunction is not essential to the *assertion or preservation of any legal right* alleged in the complaint of plaintiff; any rights it has remain fully preserved and may be and surely will be fully asserted in a trial upon the merits. Accordingly, the essentials which would entitle the plaintiff to a temporary injunction, as a matter of law, are here entirely absent. I would, therefore, affirm.